

STATE OF COLORADO

DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Owens
Governor

Stephen C. Tool
Executive Director

June 8, 2006

The Honorable Bernie Buescher, Chairman
Joint Budget Committee
200 East 14th Avenue, Third Floor
Denver, CO 80203

Dear Representative Buescher:

This letter is in response to footnote 27 of House Bill 06-1385, which states:

Department of Health Care Policy and Financing, Medical Services Premiums – The calculations for this line item include \$11,713,742 total funds for a 3.25 percent rate increase for inpatient hospital services provided to Medicaid clients beginning July 1, 2006. It is the intent of the General Assembly that the Medical Services Board adopt rules that increase each individual hospital's Medicaid reimbursement rate by 3.25 percent for inpatient hospital services provided to Medicaid clients.

As you are aware, footnote 27 of H.B. 06-1385 was vetoed by the Governor because it interferes with the ability of the executive branch to administer the appropriation and may constitute substantive legislation that cannot be included in the general appropriations bill. The Governor did instruct the Department to comply to the extent feasible and also stated that the rate change does not require rule changes from the Medical Services Board.

Current regulations regarding inpatient hospital rate setting require that the inpatient hospital rates be "rebased" every July 1 according to new Medicare rates effective on October 1 of the previous fiscal year and new audited cost report information as outlined in 10 CCR 2505-10, Section 8.356.20 and also in the State Plan.

Footnote 27 of H.B. 06-1385 does not specifically address which hospital rates should be increased 3.25 percent, the current inpatient hospital rates or the FY 06-07 rebased inpatient hospital rates. The Department assumes the intent was to provide additional funds compared to what the hospital rates would otherwise have been and therefore applied the additional funds from footnote 27 of H.B. 06-1385 to the FY 06-07 rebased inpatient hospital rates. This is

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similar to how the Department applied the additional footnote 37 funds from Senate Bill 05-209. The Department also believes that this is an acceptable method of applying the additional footnote funds since applying a 3.25 percent increase to current rates would require substantial rule changes and amendments to the state plan.

The Department has analyzed the results of applying the 3.25 percent rate increase to rebased inpatient hospital rates and has determined that setting the rates in this manner would not use the entire appropriated amount of \$11,713,742 total funds and would also result in the majority of the hospitals experiencing year over year rate cuts.

The Department would need to increase hospital rates above the 3.25 percent in order to use the entire appropriated amount of \$11,713,742 total funds. In order to use the entire \$11,713,742 total funds, the FY 06-07 rates were increased until the difference between forecasted FY 06-07 expenditures exceeded budget neutrality expenditures by exactly \$11,713,742. The Department increased each hospital's rate over what their rate would have been with the flat 3.25 percent increase; this equates to the Medicaid rates being set at approximately 92 percent of their Medicare rate. Setting the rates in this manner does not require rule changes but does require a State Plan Amendment.

Calculating hospital rates using this method is in line with current hospital rate setting regulations and budget neutrality requirements and benefits the hospitals.

Questions regarding this letter can be addressed to Jessica Wagner, Hospital Policy and Rate Analyst, Jessica.Wagner@state.co.us. Her telephone number is 303-866-3858.

Sincerely,

Stephen C. Tool
Executive Director

ST:jlw

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